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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 000301

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SUBJECT: AMBASSADOR DISCUSSES HYDROCARBON LAW, FUEL ISSUES
WITH DEPUTY PRIME MINISTER AND MINISTER OF OIL

Classified By: AMBASSADOR ZALMAY KHALILZAD, REASONS 1.5 (B) (D)

¶1. (C REL GBR) Summary. Ambassador Khalilzad met January 28 with Deputy Prime Minister (DPM) Barham Salih, Oil Minister Shahristani and the PM's oil adviser Thamir Ghadhban to discuss how to resolve final differences in the draft Hydrocarbon (HC) Law, as well as fuel supply issues and the IMF's request that the Government of Iraq comply with its commitment to increase fuel prices under the Stand-By Arrangement (SBA). The Ambassador plans to travel to Erbil this week to work with senior Kurdistan Regional Government (KRG) officials to reach an agreement that can be presented to the Council of Ministers (CoM) shortly. End Summary.

¶2. (C REL GBR) DPM Salih organized the meeting to try to close any remaining gaps on the HC Law and work out compromise approaches the Ambassador could use in meetings with Massoud and Nechirvan Barzani. With Ghadhban leading the discussion, Salih provided another version of a revised "Kurdish" draft (which post is having translated and will send to NEA). The principal unresolved issue is whether the Federal Oil and Gas Committee (FCOG) has the right to "object" or "not concur" in regionally initiated contracts for new fields. The KRG is proposing to add further clauses about the need for the FCOG to "consult" regional authorities in the event of an amendment to a contract, whether the FCOG has the right to pre-determine which variant of the model contracts a region must follow in negotiating contracts, the treatment of disputed territories under Article 140 of the Constitution, and most nettlesome, whether a Kurdish signature authority on the distribution of revenues should be provided for in the law. There are a handful of other more minor points at issue, but essentially the problem areas are the authority of the FCOG and Kurdish desire to control one of the six key functions that govern the HC regime) the positions of the Minister of Oil, head of INOC, chair of the FCOG as well as chair of the Central Bank of Iraq, the Finance Ministry and the Prime Ministership.

¶3. (C REL GBR) The tone of the discussion revealed continuing tensions between Shahristani and Barham Salih, but despite the persistence of some key issues over each iteration of the draft, the gaps are being closed. When the Ambassador asked Shahristani directly what would happen if the KRG did not agree to compromise proposals, Shahristani replied that negotiations would have to continue. Barham Salih thought that a compromise could be reached in the next few days and still submitted to the Council of Ministers within the next couple of weeks. Ghadhban was skeptical whether the CoM could approve the draft before the Council of Representative adjourned, but promised to continue working on the text as a priority. Ghadhban met January 29 with PM Maliki to brief him on the state of play of the HC Law. After Shahristani left the January 28 meeting, Barham Salih expressed some serious frustration with Shahristani's attitude, arguing that sectarian politicians were not committed to the national

good as much as they should be. Despite rumors that Shahristani is in trouble at the Ministry, the DPM did not think that Maliki had the resolve to take Shahristani on directly.

Other Issues

Fuel Supplies

¶4. (C REL GBR) Prior to the discussion of the HC draft, Shahristani addressed the issue of problems with refined product fuel supply. He said the issue with imports from Kuwait came down to his resistance to using a supplier, the Rahal Company, which had) according to Iraqi intelligence) close ties with radical Sunni (Salafist) groups. This firm was stealing refined product it imported, selling it on the black market and financing the insurgency with the proceeds. He acknowledged that Shi'a groups like Fadhila were also involved in theft of fuel transported by the Kuwaiti firm but said he would not deal with a company that funded terrorists.

¶5. (C REL GBR) Shahristani solicited Coalition Forces' support in suppressing what he said were al-Qaeda elements that had mortared the Latifiyah (Kharkh) depot, causing a fire on January 27 that damaged the loading facilities, meaning that the ca. 2 million liters of fuel per day the depot had been supplying to Baghdad were not available. (Baghdad's normal daily requirement is around 5 million liters.) Barham Salih replied that the Bayji Refinery would be a key in the Baghdad Security Plan for providing fuel and electricity to Baghdad. He had just been given a revised electricity plan by the Electricity Minister which promised

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significantly increased supplies of electricity to Baghdad in the coming weeks. Shahristani said that the problems in Bayji were driven by corruption and competition between two rival tribes who had intimidated several hundred MinOil employees into leaving the area. He said that the Iraqi Army units in Bayji had been compromised by Sunni insurgent forces, but now the commander was being replaced and he had appointed a new Director General for Bayji) Ali Obeydi) who was very highly regarded (sources in MinOil have confirmed Obeydi's reputation for competence and experience).

At Barham Salih's suggestion, a meeting at the PM's office on Bayji with Coalition Forces representation was organized for January 29.

IMF

¶6. (C REL GBR) Shahristani explained he would be leaving January 31 for Paris for meetings with the IMF on fuel price increases under the SBA. He said a meeting of the CoM the previous week had decided against price increases in the run up to the Baghdad Security Plan, and he would propose implementing the price increases in April. He asked for U.S. support for this plan.

¶7. (C REL GBR) Comment: A compromise on the HC Law indeed does seem to be within reach, but it has been seemingly so for the last couple of weeks. PM Maliki's public commitment to sending a draft forward should help bring the national government side on board if the KRG shows some movement. Based on Barham Salih's approach to the discussion above, it appears the Kurds are also interested in closing the deal on the framework for a new oil and gas regime that distributes revenues equitably among Iraq's population. End Comment.
KHALILZAD